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SUBJECT: KAZAKHSTAN: CONOCOPHILLIPS SIGNS MAJOR OFFSHORE DEAL

REF: MOSOCW 2855 (NOTAL)

11. (U) Sensitive but unclassified. Not for public Internet.

12. (SBU) SUMMARY: On October 5, ConocoPhillips CEO Jim Mulva signed a memorandum of understanding with Kazakhstan's national oil and gas company, KazMunaiGas (KMG), and Abu Dhabi's Mubadala for the exploration and development of the N Block, a very significant offshore field 30 kilometers south of Aktau in the Caspian Sea. During a meeting with the Ambassador and visiting Caspian Basin Energy Diplomacy Coordinator Ambassador Steve Mann following the signing ceremony, Mulva requested U.S. assistance with his company's negotiations on a production deal with Turkmenistan, discussed Russian President Putin's comments at the September 19 CEO summit in Sochi, and praised the efforts of Kazakhstani Minister of Energy and Mineral Resources Mynbayev to finalize negotiations on Kashagan. END SUMMARY.

AT LONG LAST, CONOCO-PHILLIPS SIGNS DEAL TO DEVELOP THE N BLOCK

13. (SBU) ConocoPhillips CEO Jim Mulva (strictly protect) informed the Ambassador and visiting Eurasian Energy Diplomacy Coordinator Ambassador Steve Mann on October 5 that his company had signed a memorandum of understanding that day with Kazakhstan's national oil and gas company, KazMunaiGas (KMG), and Abu Dhabi's Mubadala for the exploration and development of the N Block, a very significant offshore field 30 kilometers south of Aktau in the Caspian Sea. The contract will be a tax and royalties agreement, rather than a production sharing agreement (PSA), since PSAs will no longer be used in Kazakhstan in accordance with a new subsoil use law that the government will soon submit to parliament. Per the memorandum of understanding, KMG will own 51% of the venture, while ConocoPhillips and Mubadala will each own 24.5%. ConocoPhillips will be the lead operator and will have exclusivity on the final negotiations, which must be concluded by December 31. The N Block covers approximately 8,100 square kilometers, with strong prospects there for both oil and gas.

14. (SBU) ConocoPhillips has served as technical advisor to KMG for the N Block since February and has pursued the exploration contract

for the past six years. Shell has also aggressively pursued the N Block, and at one time was told by President Nazarbayev that they would be chosen for the project. Mulva explained that, in fact, the Dutch Ambassador was trying to schedule a meeting with President Nazarbayev on October 6 to renew Shell's offer. Mulva candidly told the Ambassadors how ConocoPhillips won the day. He said that during his previous visit to Kazakhstan in June, Prime Minister Massimov pulled him aside after a brief formal meeting and said, "the solution to the N Block is in Abu Dhabi. The President and the Sheikh want to get something done." According to Mulva, President Nazarbayev and Sheikh Mohamed bin Zayed maintain a close personal friendship, and Nazarbayev "loves going down there to play golf once or twice a year." It was clear to Mulva that KMG had been ordered by the President to conclude the deal for the N Block quickly and together with Abu Dhabi. "This was a state-to-state deal, pushed from the top down," said Mulva.

TURKMENISTAN DEAL STILL STALLED

15. (SBU) Mulva said that ConocoPhillips has never met with Turkmen President Berdimuhamedov and asked for the U.S. government's assistance to arrange a meeting and a fair hearing. Ambassadors Hoagland and Mann suggested that Mulva meet in Washington with Ambassador Richard Miles, incoming Ashgabat Charge, to brief him on the relevant issues. Mulva said that ConocoPhillips had been "very close" to negotiating a deal for the development of offshore blocks 19, 20 and 21 (the last of which would be developed jointly by ConocoPhillips' partner Lukoil, with both partners equally sharing the profits from all three blocks) and had had a meeting scheduled with Berdimuhamedov, but that was called off at the last minute "at the request of the Russian Foreign Ministry." Mulva said that previous efforts to build relationships with mid-level officials in the Turkmen government had been hindered by the "heavy handed"

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approach of Lukoil, in which ConocoPhillips holds a 20% stake. "That irritates the hell out of people," he said. According to Mulva, former Russian Ambassador to the United States Yuri Ushakov understands and appreciates this. Mulva said that in his conversations with Ushakov, it was clear that he recognizes that Russia needs to become a more reliable supplier of energy.

PUTIN'S PASSION AT SOCHI SUMMIT

16. (SBU) Mulva said that on September 19, he had participated in a business roundtable with Russian Prime Minister Putin and other prominent CEOs in Sochi. According to Mulva, Putin was especially passionate and animated when addressing the Western CEOs present. Putin pointed his finger at them and said that Russia has been naive for many years in its relations with the West. Mulva paraphrased Putin: "When you said tear down the Berlin Wall, we tore down the Berlin Wall. When you said give up your satellite countries, we gave up the satellite countries. When you said export your energy resources, we exported our energy resources. What else do you want from us? You just want everything. You don't ask us what we need or understand what we want. We feel like we've rolled over and been taken advantage of." (NOTE: See reftel for a different take on Putin's comments from Chevron CEO David O'Reilly. END NOTE.)

MYNBAYEV DRIVES KASHAGAN NEGOTIATIONS FORWARD

17. (SBU) Mulva also participated this week in the final-stage Kashagan negotiations to resolve taxation and operating structure issues. Mulva said that a Kashagan agreement will be signed by October 25, thanks largely to the efforts of Minister of Energy and Mineral Resources Sauat Mynbayev. Mulva told the Ambassadors that Mynbayev was "personally, directly, heavily involved" in the Kashagan negotiations. "He put hours and hours into this deal," said Mulva. "He's the guy who made this happen." (NOTE: ExxonMobil informed us on October 6 that the Kashagan talks had stalled over export and transportation issues. As a result, their senior corporate representatives would be tied up and thus not be able to attend the Kazakhstan International Oil and Gas Exhibition taking place in Almaty during October 7-10. END NOTE.)

